



# Audit committees

## The evolving role and effective working practices

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**A good audit committee is like a good auditor ... all  
nose and backbone.**





# Agenda



## 01

### The external environment

The fusion of risks unfolding simultaneously, and the unexpected interconnectedness of these risks, has put a premium on more-holistic risk management and oversight.



## 02

### The expanding role

The committee's core oversight role has expanded over time to include oversight over an array of new risks.



## 03

### Roles and responsibilities

The fundamentals include oversight over the integrity of corporate reporting, risk management and internal control systems, and internal and external audit



## 04

### Committee effectiveness

An audit committee of itself does not guarantee good governance. What steps can be taken to make an audit committee an effective audit committee?

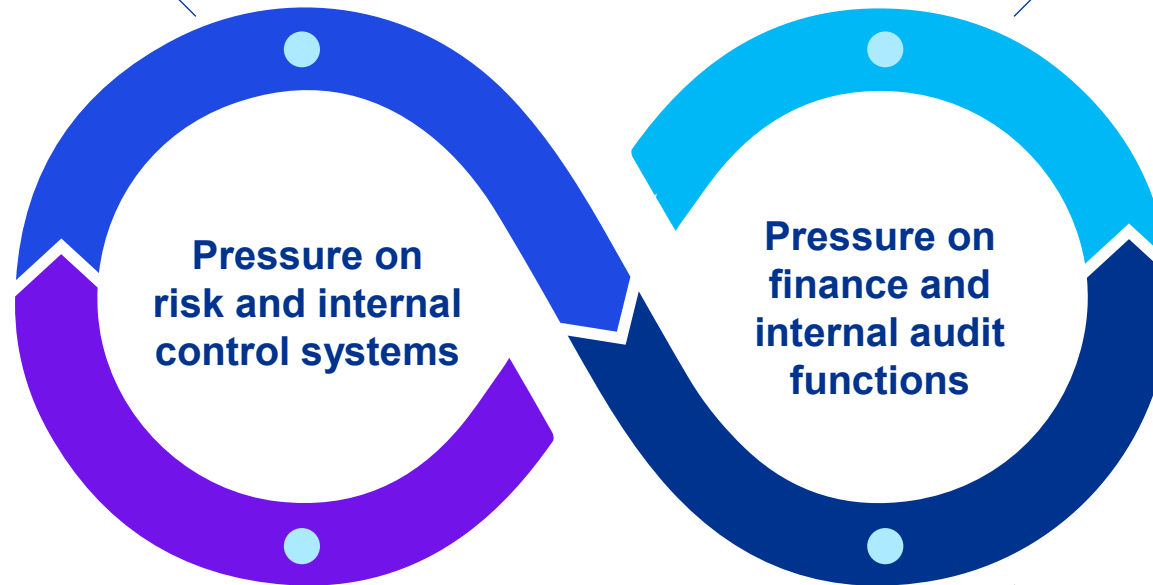
# The external environment

## Geopolitical instability

After more that two years of operating in a Covid19 impacted environment, the war in Ukraine has perpetuated supply chain issues. Looking wider, the rapid progress in globalisation is on the wain, or at least has slowed down

## Regulatory and stakeholder demands

Regulators, shareholders and other stakeholders are demanding greater disclosure and transparency around and ever increasing number of areas, including ESG reporting.



## Global economic volatility

The business and risk environment has changed dramatically over the past year or so, with surging inflation and the prospect of a global recession now added to the mix of macroeconomic risks companies are facing in 2023.

## Increasing complexity of business environment

Macrotrends driving the audit committee's priorities include the risks posed by cybersecurity and ransomware attacks, AI developments, supply chain disruptions, and workforce challenges.

# The expanding audit committee role

## The fundamentals

- Oversight over the integrity of the financial statements
- Oversight over the effectiveness of the entity's internal financial controls and internal audit arrangements
- Oversight over audit or appointment and independence; and the effectiveness of the audit process



## Greater oversight of risk and reporting

- Oversight over a broader spectrum of risk and control
- New risks added to many committee mandates – eg compliance and cybersecurity



- Oversight of narrative reporting including sustainability disclosures

## Audit tendering becomes a reality

- EU law drives regular audit tendering and rotation



- Greater involvement in the tender process
- More formality around selection criteria
- Increased responsibility for negotiating and agreeing the audit fee.
- Audit quality or a low cost audit?

## Regulation of the committee itself

- Codes and Standards create more formality around the audit committee role
- Minimum Standards allow regulators to hold audit committees to account for non-compliance with accepted practices



# Key role and responsibilities

## 01

### **The annual report and other periodic reports**

The audit committee should monitor the integrity of the financial statements and any formal announcements relating to the company's financial performance, and review any significant financial reporting judgements contained therein

## 02

### **Internal control and risk management systems**

The audit committee should review the company's internal financial controls and internal control and risk management systems, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself

## 03

### **Internal audit**

The audit committee should monitor and review the effectiveness of the company's internal audit function or, where there is not one, consider annually whether there is a need for one and make a recommendation to the board

## 04

### **External audit**

The audit committee should

- conduct the audit tender process and recommend the auditor appointment to the board, and approve the remuneration and terms of engagement of the external auditor
- review the effectiveness of the external audit process
- review the external auditor's independence and objectivity; and develop and implement a policy on the engagement of the external auditor to supply non-audit services

# Ten steps to an effective audit committee

01

The right people

02

Keep up to speed

03

Clarity as to role

04

Working between  
meetings

05

Combatting  
asymmetric  
information flows

06

Private sessions  
with auditors

07

Deep dives from risk  
'owners'

08

Balancing  
supervision with  
relationships

09

Meeting dynamics

10

Evaluation



# Getting the 'right' people and getting them up to speed

**01**

## **Optimising diversity of perspectives**

Audit committees should be big enough to benefit from the diverse skills, experience and perspectives of a number of different individuals, but not so big as to make the conduct of the committee's business unwieldy.

**02**

## **Harnessing the right skills and experience**

The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience, and that the committee as a whole has competence relevant to the sector in which the company operates.

**03**

## **Induction/continuing development**

New members should be prepared to take responsibility for their own induction programme – working with management and others to determine how best to get up to speed and build a strong foundation for informed oversight.

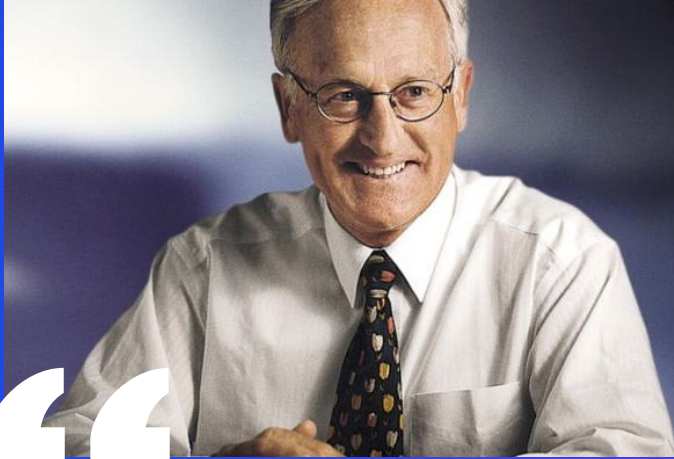
**04**

## **Creating networks within the business**

Get below the top layer and into the bowels of the company. Build yourself a network of people you can rely on to feed you information from outside the norm on what is happening in the company, why it's happening and the underlying culture.



# Clarity of role



**The audit committee is a committee of the board and it should not usurp or take on the board's role and authority**



# Making the most of the audit committee's time together

**01**

## **Control the agenda**

- Resist any attempt by the executive to control the audit committee agenda.
- Remain professionally sceptical.
- Prioritise high risk areas.

**02**

## **Hear from the right people**

- Deep dives - hear from the risk owners, not just the CEO/CFO.
- Remain cognisant of the talent pipeline
- Observe body language.

**03**

## **Meeting materials**

- Quality and timeliness.
- Balance presentation time and time for discussion.
- Expect the full picture - pros and cons and a recommendation.

**04**

## **Committee dynamics**

- Prepare in advance of the meeting.
- Everyone should be contributing.
- Beware 'group think', disengaged members, dominant personalities, etc.

**05**

## **Meeting attendees**

- Important for the CEO to be in attendance – things get done!
- CFO, Head of Internal Audit, Head of Risk, External Audit Partner are standard

**06**

## **Private meetings**

- Avoid addressing issues that should have been addressed with the executives present
- Focus on attitudes to control/reporting, relationships, and resources.

# Working between meetings and combating asymmetric information flows

01

## **‘Walk the floors’**

Between meetings, it’s good to sit down with the key people in their ‘natural habitat,’ without an agenda. Just visit them in their office and have a conversation about things that are on their radar ... or yours.

02

## **Use your time outside the boardroom**

Seventy percent of the audit committee role is spent outside the head office – not just for the audit committee chair, but for all audit committee members. Don’t allow anyone to script your time out in the business. Ask unconventional people questions about audit-related matters.

03

## **Never assume**

Never assume others understand something you can’t fathom. Always ask for an explanation and persevere until you understand.

04

## **Get exposure to different perspectives**

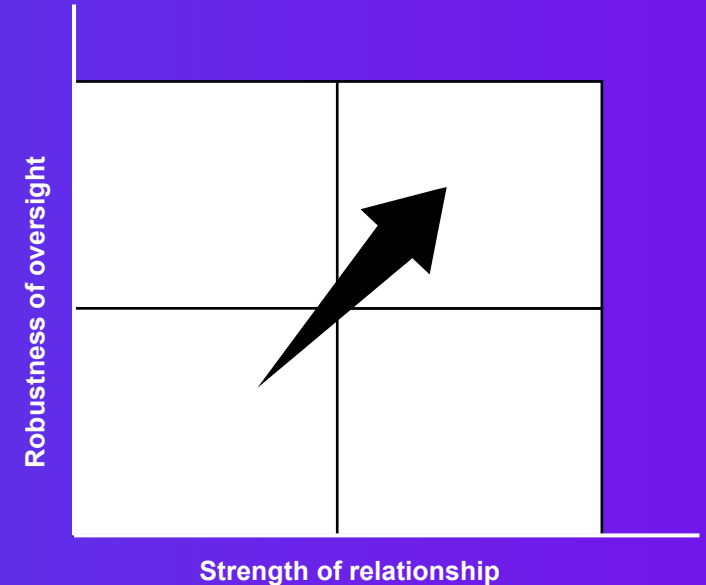
Get exposure to both third-party and dissenting views. Being aware of, but not necessarily beholden to, views from outside the organisation, goes to the heart of being a good audit committee member.

# Creating healthy relationships



**Understand the line between oversight and management. Effective oversight is difficult to achieve where management views the audit committee as nothing more than a necessary corporate governance burden.**

**Any serious concerns are brought to the audit committee's attention promptly, but in a non-adversarial way.**





# Driving improvement through regular assessment

01

## The limitations of checklists

Sometimes the committee goes through an elaborate checklist which typically shows that everything the committee should have covered was in fact covered – and therefore the committee must be awesome. A necessary approach maybe, but not a sufficient one.

02

## Supporting the whole board

The people that need to be happy with the audit committee's work are the other board members who are not part of the committee. They need to have confidence that their delegation of board responsibilities was handled thoroughly and effectively

03

## Regular conversations

While annual formal and rigorous assessment has its place, don't underestimate the value of regular assessment. After each meeting ask "*what could the committee have done better?*"

04

## Observation and focus

Think about peer reviews - the benefits of observing the committee in action should not be underestimated. Also try to remain focussed on the one or two key factors that drive or threaten effectiveness.



# **KPMG**